

# **CAPITAL PLANNING ADVISORY BOARD**

## **Minutes of the First Meeting of Calendar Year 1999**

**February 19, 1999**

The first meeting of the Capital Planning Advisory Board (CPAB) of the 1999 calendar year was held on Friday, February 19, 1999 at 1:00 PM, in Room 327 of the Capitol. Vice-Chairman Bill Hintze, serving as Acting Chairman, called the meeting to order, and the roll was called.

Present were:

Members: Bill Hintze, Vice-Chairman; Representative Perry Clark; Susan Clary; Secretary James Codell; Representative Brian Crall; Bonnie Howell; Lou Karibo; Jim Nealy; Norma Northern; Senator Albert Robinson; Nick Schwendeman; Laurel True; Judge Edwin White; and Senator Ed Worley.

Guests: Secretary John McCarty, Finance and Administration Cabinet; Commissioner Armond Russ, Department for Facilities Management; Tom Engstrom, Kentucky Department of Education; John Friel and Brian Easton, Cabinet for Workforce Development; Ralph Bartley and Kerry Carr, KY School for the Blind; Pete B. Dresbach, KY FFA Leadership Training Center; Bart Bolin and Paul Royce, Cabinet for Health Services; Shirley Rodgers, Kentucky Information Resources Management Commission; Sherron Jackson, Council on Postsecondary Education; Glenn Mitchell, Transportation Cabinet; Mary Allen, University of Kentucky; Melanie Bailey, Natural Resources and Environmental Protection Cabinet; Joe Lancaster, Governor's Office for Policy and Management; and Lola Lyle, Jerry Bailey, and Karen Crabtree, Legislative Research Commission.

Press: Dave Baker, Frankfort *State-Journal*.

LRC Staff: Pat Ingram, Mary Lynn Collins, and Phillip Smith.

Mr. Hintze welcomed Representatives Clark and Crall and Senator Worley as new members to the Board. He explained that the Board is comprised of equal numbers of members from the three branches of government, which appears to be unique in the country.

Mr. Hintze then noted that he was presiding today because the Board's former Chairman, Representative Fred Nesler, had received other legislative committee assignments and was no longer serving on this Board. Mr. Hintze said a resolution had been prepared honoring Representative Nesler's service on the Board. After CPAB Board Administrator Pat Ingram read the resolution, it was unanimously approved to be sent to Representative Nesler. Mr. Hintze said he knew Representative Nesler had enjoyed his service on the Board and the educational and participatory process it brings to the whole capital planning effort.

The next order of business was approval of the minutes of the December 16 meeting. Senator Worley's motion that the minutes be approved was seconded by Ms. Northern and approved.

Mr. Hintze then explained that there were two Information Items in the members' folders. The first was a report on the use, to date, of the Statewide Deferred Maintenance Fund. Mr. Hintze explained that this pool was established in the 1996-98 budget, and renewed and placed in statute by the 1998 General Assembly. It is available for projects under \$400,000 each for agencies that do not have funds to address serious maintenance needs. Major beneficiaries most recently include those agencies that did not meet deadlines for addressing underground storage tank issues and those that had few or no maintenance funds appropriated in the 1998-2000 budget.

Mr. Hintze said the second Information Item contains excerpts from the report of the Government Performance Project, which was a study of the management practices of all 50 states. The study was conducted by the Maxwell School of Public Administration at Syracuse University and Governing Magazine, with funding from the Pew Charitable Trusts. The excerpts provided today reflect hundreds of pages of materials that were submitted for the study, which focused on financial management, human resources management, capital project management, information technology (IT), and managing for results. Each category was rated separately.

Mr. Hintze pointed out that the highest mark Kentucky received was an A- in the capital management area and a lot of the attention that Kentucky received in that area was because of the Capital Planning Advisory Board. He said that while the findings of the Board are not universally utilized in the budget process, they have been substantially used in that process and have set forth a course of action to pursue over a period time. He said he especially wanted to thank the Board members who have served since the Board was established for their participation in that effort. Mr. Hintze said he thinks this has and will continue to achieve national acclaim, and the Board needs to build on that and to maintain its record in the next two years.

Mr. Hintze also said Kentucky received a B+ in financial management and pointed out that Governor Patton and the General Assembly had provided the tools to establish a good record in that area. He said Kentucky also had good marks in human resources management, which related to innovations in minority recruiting. While the lowest mark was a C+ in information technology, Mr. Hintze said that for other states the marks in information technology were also lower than in the other areas evaluated and that Kentucky has a lot of initiatives underway in the IT area.

Mr. Hintze concluded by saying this report has received a lot of acclaim in government circles; many people put a lot of effort into it and the results for Kentucky are commendable.

Next Mr. Hintze introduced John McCarty, Secretary of the Finance and Administration Cabinet, and Armond Russ, Commissioner of the Department for Facilities Management, to update the Board on the long-range plan for state offices in Frankfort.

Secretary McCarty explained that the 1998 General Assembly had authorized \$87 million for a new facility to house the Transportation Cabinet. Sites being evaluated for construction of the facility are the Carpenter Farm on the East-West Connector and two sites in downtown Frankfort – Holmes Street and Mero Street. Appraisals are now underway to determine the cost of the Holmes Street site since some residential and some commercial properties would have to be acquired. Additionally, discussions are underway with the Natural Resources and Environmental Protection Cabinet because a portion of the site includes a junkyard, which raises environmental issues.

Secretary McCarty said since his last presentation to the Board focused on the Holmes Street site, it might have left the incorrect impression that Mero Street was no longer being considered. He said he wants the Board to know that both sites are still under active consideration as a downtown location for the building. He noted that both are challenging sites – Holmes Street from an environmental perspective and Mero Street from the perspective of historical structures that would have to be considered. They have met with the Heritage Commission on that issue.

Commissioner Russ said construction of the Transportation Cabinet building is the first step in the plan to renovate all of the major Frankfort state office buildings in sequence over about a 10-year period. That plan is delayed pending a decision on the site for the new building and the time it takes to complete any property acquisitions for it. The initial plan was predicated on using a clear field site. Commissioner Russ then confirmed Mr. Hintze's statement that the adjustment is in the time frame, not in the content of the plan.

Mr. Hintze explained that the plan calls for the Transportation Cabinet to move into the new facility, thus facilitating a needed renovation of the State Office Building. Following that renovation, employees in the Capital Plaza Tower would be relocated to the State Office Building to allow for the Tower to be renovated, then a similar process would allow for renovation of the Human Resources building. He said these renovations are needed both because of the age of the buildings (30 to 50 years old) as well as the need to address their inadequate capability to handle the requirements of technology systems today. Mr. Hintze said Commissioner Russ would now discuss another major project involving the Capitol building and Capitol Complex.

Commissioner Russ said for this project, called the Capital Restoration and Renovation Project, a committee of all three branches of government has been formed to review what needs to be done with the Capitol. He said this building is Kentucky's fourth Capitol. It was dedicated on June 1, 1910, and its last major renovation – to deal with air conditioning and heating – was in the 1950s, so it is overdue for renovation. A major problem is that the building, which was designed for 273 persons, now houses over 400. The current project is looking at the needs of the tenants today and 20 years into the future. It is also looking at the issue of what areas of the building need to be kept in their original condition and what areas can be modified for use. And it is looking at all of the basic pieces of the building including the air conditioning and heating systems, lighting, security, the stone on the exterior, and the interior walls.

Commissioner Russ said the design team includes consultants who have worked on other state capitols. They will present various alternatives to the committee on April 7, with voting to determine the preferred alternative to follow on April 21. On June 16, the committee will receive a concept development of that alternative and some budgetary information. September 15 is the date for approving a plan of action. Design funds will probably be requested in the 2000-02 budget, followed by construction or renovation funds in the next biennium.

Commissioner Russ explained that the Capitol building is just one piece of the Capitol Campus, which includes the Capitol Annex, Governor's Mansion, and surrounding area. Issues to be addressed include deciding which agencies should be located on the Capitol Campus and traffic flow. As such, the results of the study may relate not only to renovation of the Capitol building but also to providing additional office space for personnel that may be displaced and to providing appropriate security and access. Commissioner Russ concluded his presentation by inviting members to attend the April 7 meeting where the various alternatives will be presented, then said he would be pleased to respond to questions.

Mr. True asked the status of the long-range plans which, by statute, were to be developed relative to state offices in Louisville, Lexington, and Northern Kentucky. Commissioner Russ said those are being completed now.

Mr. True then noted that at the last meeting there was discussion about office buildings being owned by a variety of state agencies and asked whether any progress was being made into looking at the possibility of the Finance and Administration Cabinet owning all such buildings. Commissioner Russ said the Department for Facilities Management does have a process in place for taking over and determining the feasibility of reusing or disposing of buildings which other agencies no longer want. The Department also has a staff to deal with services of all types for the Frankfort buildings and the state complexes in London and Madisonville. Taking on responsibility for facilities in other areas would require additional staffing and undertaking an evaluation of their maintenance needs; the Department has limited knowledge of those facilities now.

Mr. True said while it made sense for agencies to handle the functional buildings relating to their mission, it did not make sense for so many different agencies to own office buildings when Finance seems to do a good job in that role. Commissioner Russ said the Department has the technical expertise and procedures in place, and with additional staffing and resources, could take on that responsibility.

Mr. Hintze said the Finance and Administration Cabinet is not coveting that responsibility, but the Board ought to follow through on working with the Cabinet to review issues of stewardship and responsibility for those facilities that are not of a unique, mission-oriented character. He noted that an agency other than the Finance Cabinet is the landlord for the various agencies that are housed in the Ashland State Office Building.

Mr. True said the issue of how to decide whether the state should have an office building in a given location also needs to be addressed. This is an important issue for planning - not just in the larger cities like Louisville and Lexington, but also in smaller places like Madisonville and Owensboro. Mr. Hintze agreed, saying it was a major issue to undertake, but an important one. He said while the Finance Cabinet is the major player in this, it cuts across cabinets and goes beyond physical facilities to technology-related issues as well, such that the Board probably needs to think about adding this topic to its agenda. Commissioner Russ noted that a factor in smaller communities is that programmatic shifts have a more dramatic impact on the need for state employees, and thus space, than they do in the major metropolitan areas.

Mr. Hintze next explained that the next two presentations provide the opportunity to hear from agencies that are not normally the focus of the Board's attention. Representing the Workforce Development Cabinet, he introduced John Friel, Executive

Director of the Office for Policy and Budget, and Brian Easton, Branch Manager for Facilities Management.

Mr. Easton explained that three departments within the Cabinet have state-owned facilities – the Department for Employment Services (DES), the Department for the Blind, and the Department of Vocational Rehabilitation.

He noted that the average age of the 24 state-owned DES office buildings is 40 years, but they have been maintained in relatively good condition inside and out. The roofs, averaging 10 years old, are fairly good. The HVAC systems, averaging 16 years old, are in fair to good condition. Ten different companies have been contracted to provide statewide coverage to perform preventive maintenance for these systems.

According to Mr. Easton, recently several of the DES facilities have benefited from a Federal One-Stop Implementation Grant that enabled almost every employment office to purchase new computer equipment and furniture, and at eight locations provided the facility with \$30,000 to \$50,000 for interior renovations. (The purpose of this grant was to provide, in one location, an environment where employers and clients can obtain information on all aspects of training and employment.) However, an additional \$50,000 for each of these eight facilities is still needed in order to fund projects such as life safety and energy savings. In the remaining 16 facilities, renovations as well as life safety and energy savings improvement projects are needed.

Mr. Easton said previous capital plans have included a project to address mechanical, roof, and life safety issues for the largest DES office, located in Louisville. Capital plans have also included renovation of the Maysville and Elizabethtown offices, but the Department is now proposing to dispose of these facilities as well as the Winchester office because they are too small and do not meet requirements of the Americans with Disabilities Act (ADA). Maysville and Elizabethtown employees will move into leased space; Winchester employees will move into a new state office building authorized in the 1998-2000 budget.

Turning to facilities of the Department for the Blind, Mr. Easton noted that both are located in Louisville. The Kentucky Industries for the Blind, constructed in 1971, needs roof repairs and work to correct floor slab settlement in some areas. In recent years, various projects have updated lighting and electrical systems, replaced overhead doors, provided new loading dock equipment, addressed damaged wall sections resulting from settlement problems, and renovated nearly all administrative office areas. Currently, a new product assembly area is being provided.

Mr. Easton said the Department's other facility is the Charles McDowell Center, which was constructed in 1994. Although currently in excellent condition, there are

already signs of needed maintenance relative to ceilings, wear of existing carpeting, and painting. The HVAC and fire alarm systems are under preventive maintenance contracts.

Mr. Easton reported that the Department of Vocational Rehabilitation's Carl D. Perkins Rehabilitation Center, located in Thelma, was constructed in 1972 and is in very good condition. As proposed in three previous capital plans, the immediate need is to replace the original rooftop HVAC units with modern, more efficient natural gas-fired units, and to convert other facility equipment to natural gas. Replacement of the sewage treatment plant will also be included in the upcoming capital plan. The 15-year old roof is in fair condition having had several repairs in the past few years. In recent years, a sprinkler system and a security system have been installed and the smoke and fire alarm systems updated.

Relative to addressing maintenance needs, Mr. Easton noted that the Department for Employment Services has managers at each site who assist in determining those needs and reporting on work in progress; at the Department for the Blind facilities, the directors are his primary contacts; and the Carl D. Perkins Center has a maintenance supervisor and staff of 17. Deferred maintenance for the Cabinet exceeds \$3.5 million including \$120,000 for each of 23 DES offices; \$400,000 for the larger Louisville DES office; and \$300,000 for the remaining Cabinet facilities. The Division of Facilities Management's Facilities Maintenance Branch allocates the funds available for maintenance each year based on the following priorities: contractual obligations, safety/environmental issues, building maintenance, building renovation, program modifications or renovations, minor construction, grounds or aesthetic improvements. Allocations are based on an evaluation of the requests; a set amount is not allocated to each institution.

Mr. Hintze thanked Mr. Easton for his presentation and asked if members had any questions.

In response to Senator Worley's questions about One-Stop facilities, the Workforce Development Cabinet representatives indicated that all but two of the labor market areas have one-stop capabilities. Those two, Richmond and Maysville, are in the process of being awarded. It is up to the local area to determine where to locate; most are in current DES buildings but Owensboro has its own building. Senator Worley indicated that he is interested in how the One-Stop facilities come to fruition; he has monitored development of the one in Richmond for a long time. Mr. Friel said Governor Patton wants to implement the Workforce Investment Act effective July 1 of this year.

There being no further questions, Mr. Hintze introduced Tom Engstrom, Director of Administrative Services in the Department of Education (KDE), to make a presentation on the Department's capital facilities.

Mr. Engstrom thanked the Board, on behalf of the Department, for the opportunity to discuss issues concerning planning and maintenance at the state owned and operated Kentucky School for the Blind (KSB), Kentucky School for the Deaf (KSD), and the FFA Leadership Training Center. He noted that representatives from each were present to answer any questions following the presentation.

Mr. Engstrom said the KSB was founded in 1842 and has been at its present campus at 1867 Frankfort Avenue in East Louisville since 1855. This residential, state-supported public school sits on 14 acres and serves grades K-12. It has 15 buildings which comprise approximately 243,098 square feet with a replacement value of \$16,702,400. KSB's maintenance department, located within the operational/support services area, has six staff members (excluding housekeeping and custodial) and a supervisor who reports to the assistant superintendent.

Mr. Engstrom said the KSD was founded in 1823 as the first state-supported school for the deaf in the United States. It is a 185-acre residential campus on South Second Street in Danville and serves Kentucky's deaf children, from ages 5 to 21. The KSD has 18 buildings which comprise approximately 405,687 square feet with a replacement value of \$20,693,500. The KSD's maintenance department, located within the fiscal/support services area, has seven staff members (excluding housekeeping and custodial) and a supervisor who reports to the assistant superintendent.

Mr. Engstrom said the FFA Leadership Training Center, located on 125 acres in Hardinsburg, includes a 14-acre lake. The property, originally developed by the Civilian Conservation Corps (CCC) in the early 1930s, became part of the Department of Education in the early 1980s. The FFA Center has 38 buildings which comprise approximately 71,782 square feet with a replacement value of \$2,887,500. The maintenance department has one full-time employee, with responsibility for all facilities and grounds, who reports to the Center's Director. Additionally, one permanent, part-time custodial employee also does light maintenance; and during the full-occupancy summer months, 2-4 seasonal employees assist with daily maintenance and custodial chores.

According to Mr. Engstrom, at KSB and the FFA Center, routine and preventative maintenance plans and procedures are developed from in-house review and inspection processes. At KSD, they rely heavily on agreements with private vendors to inspect and service various facilities on different schedules. For all three, these inspections are in addition to annual visits by the Finance and Administration Cabinet and regulatory inspections by the Fire Marshal's office, Health Department, Division of Air Quality, and Environmental Protection Agency.



Mr. Engstrom said identifying maintenance and major project needs is handled similarly at all three locations. Annually, in the spring, management at each location evaluates and prioritizes known maintenance project needs for the next fiscal year. This evaluation identifies maintenance items, including those beyond the physical, financial, and technical capabilities of each location. These maintenance needs are submitted to KDE's central office, Division of Administrative Services in Frankfort. After consultation with management at each location, priorities are budgeted to the extent funds are available. Less costly, less complicated needs are funded within an agency operating budget, while more costly and more complicated items are budgeted from KDE's Capital Projects Miscellaneous Maintenance Pool account. In the odd-numbered years, this process also reevaluates and reprioritizes major projects for the six-year capital plan and integrates new concerns into the plan.

According to Mr. Engstrom, the Department considers deferred maintenance as previously identified maintenance items that cannot be funded in the current year; the best estimate of such needs at these three locations is \$14,302,000.

Mr. Engstrom said that generally, the facilities at each location have been well maintained; their condition is more directly related to normal wear and tear associated with their age. The average age of the buildings at all three locations is well over 25 years. While emphasis has been placed on regular and preventative maintenance at the local level and on repairs, replacements, renovation and major maintenance at the capital project level, funding in the last several biennia has not kept pace with these needs. As a result, more problems have had to be dealt with on an emergency basis.

Mr. Engstrom reported that in the past five biennia, \$8,214,400 has been appropriated for capital projects at these three locations. Of that amount, \$5,220,700 or 64% went toward design or construction of new projects that replaced other facilities, leaving nearly \$3,000,000 over the last 10 years for renovation, repair and major maintenance of facilities that now have a replacement value of just over \$40,000,000.

Mr. Engstrom suggested that one approach to begin making significant inroads into reducing the current deferred maintenance needs would call for an appropriation of approximately \$3,000,000 in each of the next five biennia, which is the total appropriated for renovation, repair and major maintenance in the last five biennia combined. Actually, that amount would need to be even higher to include additional needs that will surely surface over the next 10 years. He said his intention is not to be an alarmist but, from these comments, he hopes the Board notes the urgency of the needs. For these locations to deal with the backlog of needs, a significant change from the historical capital project funding pattern must take place.

Mr. Engstrom concluded by expressing his appreciation of CPAB's interest and support of this budget area and offered to answer questions from members.

Mr. Hintze said that in order to address the legitimate backlog of needs of the Department, there would have to be more money available as well as a change in the funding approach. Increasing maintenance funds would require using a different source of funds than has been relied on previously. He noted that the current source, Capital Construction Investment Income, provides only about \$12 - \$14 million per year for the maintenance needs of every agency in state government. When they are available, surplus funds may be used for this purpose but that is not a reliable, recurring source of income. Also sometimes projects may be grouped together to allow for a bond issue, but it is generally not wise to use this source for minor maintenance and repair. Mr. Hintze said he just wanted to make the point that there is a gulf between the inventory of needs and the ability to meet those needs given the current funding approach.

Mr. True then asked about enrollment at KSD and KSB; he noted that now local school districts often have programs to meet these needs. Mr. Engstrom said he did not have that information with him, and Mr. Hintze suggested that item could be addressed in the Department's capital plan submission in April.

After thanking Mr. Engstrom for his presentation, Mr. Hintze noted that the Board needed to act on a couple of items regarding the upcoming planning process. He said that in previous planning cycles, the Board has relied selectively on the advice of screening panels and groups of experts with respect to certain aspects of the capital plans, including information technology projects and projects of the postsecondary education institutions.

Judge White asked if the Kentucky Information Resources Management (KIRM) Commission would be doing the same evaluation of IT projects as it had done in the past. Mr. Hintze noted there is now a Chief Information Officer (CIO) in addition to KIRM and that an Information Technology Transformation Initiative is being developed which will probably lead to consolidation and reorganization of the IT functions. Since KIRM is still active, the request from CPAB probably should ask for a collaborative assessment from the two with the CIO being the primary contact. A motion to that effect by Senator Worley was seconded by Secretary Codell and approved.

Relative to postsecondary education, Mr. Hintze noted that while CPAB historically has asked the Council on Higher Education (now Postsecondary Education) to provide a recommendation on those projects, there is still an opportunity for input from the individual institutions directly to the Board as well. A motion to request recommendations from the CPE was made by Secretary Codell, seconded by Ms. Northern, and approved.

Mr. Hintze said that the overview of the capital planning process listed on the agenda would be delayed until a future meeting.

Mr. Hintze said the next order of business would be the election of a new CPAB chairman, and opened the floor for nominations. Mr. Hintze was nominated by Senator Robinson, but declined saying he appreciated it but felt that since he is an executive branch appointee and staff member, it was more appropriate for someone else to chair this legislatively-established Board. Mr. True then nominated Representative Clark. The nomination was seconded by Secretary Codell, and Representative Clark was elected by acclamation.

The floor was then opened to nominations for Vice-Chairman. Judge White nominated Mr. Hintze. The nomination was seconded by Ms. Clary, and Mr. Hintze was elected vice-chairman of the Board.

Mr. Hintze said the Board's next meeting would be held at the new Jefferson County Judicial Center and focus on a discussion of courthouse projects.

There being no further business, the meeting was adjourned.